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ESSEX PACKERS LIMITED, HAMILTON, ONTARIO

1971
ANNUAL
REPORT



Essex Packers Limited

DIRECTORS

O. W. DURDIN, M.B.E., Q.C.	
C. J. MCKEE	E. D. GOULDING
J. A. MCPHARLIN	L. S. LEE
H. POWOROZNYK	R. M. PTOLEMY

OFFICERS

J. A. MCPHARLIN
Chairman of the Board

C. J. MCKEE
President and General Manager

G. N. SEIFRIED
Secretary-Treasurer

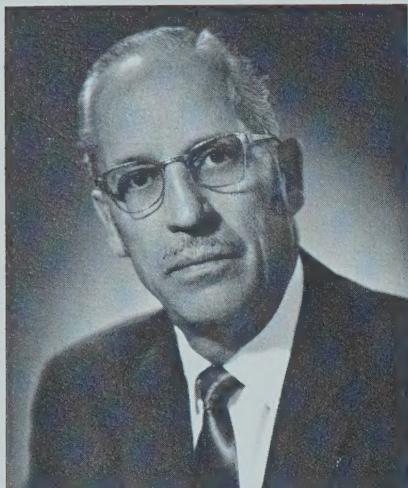
AUDITORS

MCDONALD, CURRIE & CO.
Chartered Accountants

PLANTS

HAMILTON — ST. CATHARINES

President's Report



TO THE SHAREHOLDERS

As President of your Company and on behalf of its Board of Directors, I am privileged to report to you on the activities and financial position of the Company for the year ended April 3, 1971.

Financial

Of primary and immediate interest to you are the earnings for the year. Operating profit for the 1971 period, before tax and before extraordinary items, was \$214,861, as compared with \$241,035 in 1970. Net earnings, after extraordinary items, were \$118,558 as related to \$141,231 respectively. While not entirely satisfied with these results, we were pleased and encouraged that the resumption of the profitable performance attained in the prior year was continued on a consistent basis through 1971.

In contrast with the year 1970 when the loss carry-forward provisions of the Corporation Tax Act eliminated tax for that fiscal period, we were again subject to regular rate schedules in 1971.

Our progressive program for improving liquidity proved productive, as an increase of \$124,579 raised working capital to a record level of \$858,826. We shall endeavour to maintain this favourable trend.

Current dividend payments were made on preferred shares during the year, however the elimination of dividend arrears, amounting to \$23,500, was deferred until, in Management's

opinion, the working capital position would ensure their continuity. It is anticipated that all arrears will be paid in the 1972 fiscal year.

Operations

Hog marketings increased steadily throughout the calendar year 1970 — Ontario was up an average of 11.6% and all of Canada 15.6%. As a consequence, hog prices on the Toronto market dipped from a high of \$39.51 per cwt. in February to a low of \$26.42 per cwt. in December. The same trend in hog marketings and prices continued during the first three months of 1971. On the other hand, cattle marketings were fractionally lower and prices about \$1.15 per cwt. higher.

Under these supply conditions, our plants operated closer to capacity — an advantage that was required to partially offset spiralling costs of wages, materials and other services. At the same time, it became necessary to increase expenditures on repairs and maintenance to our facilities in order to keep pace with the requirements of inspection authorities. In this respect, our outlays for this purpose were 178% of those experienced in the fiscal year 1970.

The subtle force of supply and demand, coupled with a "price war" at the retail level, extracted much of the vitality from the market place during the fourth quarter of the year. Only through careful Management control and improved productivity were we able to cope with the prolonged pressure on wholesale prices.

Despite these difficulties, however, the Company's sales tonnage and volume both exceeded previous accomplishments. We have consistently adhered to a policy that provides for rigid control and surveillance over the quality, condition and wholesomeness of all of our products and are confident that this positive approach will not only lead to increased consumer demand but also to more satisfactory operating results.

Outlook

Forecasting is always hazardous but it is even more so at this time. It is difficult to predict the content of the Federal budget, which is yet to be announced, or the influence it may have on the general economy, how-

ever it is apparent that some of the proposed controls and regulations pertaining to marketing and packaging will further erode the free enterprise system. In our own industry, we anticipate an ample supply of livestock, relatively low prices and keen competition.

I am pleased to inform you that we have enjoyed profitable operating results for each of the first two months of the new fiscal year and I am confident that this favourable trend will continue.

Appreciation

Our Management team has performed in a dedicated, co-operative and effective manner. With enthusiasm and determination key-notes of their daily conduct, I am sure that the Company's momentum will continue to accelerate in the coming year. We are deeply grateful to them.

Again, I would extend personally and on behalf of our Directors, our sincere appreciation to our customers for their patronage, to our suppliers and to our shareholders for their co-operation and last, but not least, to our employees for their invaluable devotion and loyalty to this Company. We solicit the continuing assistance and support of all of these parties as we move forward confidently into the future.

C. J. MCKEE, President

Auditors' Report

TO THE SHAREHOLDERS

We have examined the balance sheet of Essex Packers Limited as at April 3, 1971 and the statements of earnings, retained earnings, contributed surplus and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the financial statements present fairly the financial position of the company as at April 3, 1971 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**McDONALD, CURRIE & Co.,
Chartered Accountants**

Windsor, Ontario
April 23, 1971

Essex Packers Limited

Comparative Balance Sheet

as at April 3, 1971

Assets

	1971	1970
	\$	\$
CURRENT ASSETS		
Cash	3,455	—
Accounts receivable (note 1)		
Trade	1,205,217	1,237,270
Other	19,979	32,006
Inventories — at the lower cost or net realizable values (notes 1 and 2)	1,328,208	1,217,045
Prepaid expenses	<u>40,949</u>	<u>46,354</u>
	<u>2,597,808</u>	<u>2,532,675</u>
INVESTMENT		
7½% mortgage loan receivable	<u>12,075</u>	<u>17,203</u>
SINKING FUND BANK (Note 3)	<u>24,130</u>	<u>25</u>
FIXED ASSETS		
	Cost	Accumulated depreciation
	\$	\$
Land	74,757	—
Buildings	639,300	314,454
Machinery and equipment	1,642,518	1,260,270
Trucks and autos	<u>241,628</u>	<u>190,025</u>
	<u>2,598,203</u>	<u>1,764,749</u>
GOODWILL — at nominal value		
	1	1
	<u>3,467,468</u>	<u>3,427,138</u>

Signed on Behalf of the Board

J. A. McPHARLIN
Director

C. J. McKEE
Director

Liabilities

CURRENT LIABILITIES

	1971	1970
	\$	\$
Bank advances (note 1)	806,000	1,175,162
Accounts payable — trade	448,106	352,331
Other accounts payable and accrued liabilities	391,755	270,935
Income taxes	<u>93,121</u>	—
	<u>1,738,982</u>	<u>1,798,428</u>

Shareholders' Equity

CAPITAL STOCK

Authorized —

12,513 5% cumulative sinking fund first preference shares with a par value of \$50, redeemable at \$52.50

140,000 common shares without par value

Issued and fully paid —

7,513 preference shares	375,650	375,650
140,000 common shares	<u>700,000</u>	<u>700,000</u>
	<u>1,075,650</u>	<u>1,075,650</u>

CONTRIBUTED SURPLUS

RETAINED EARNINGS

36,119	36,119
<u>616,717</u>	<u>516,941</u>
<u>1,728,486</u>	<u>1,628,710</u>
<u>3,467,468</u>	<u>3,427,138</u>

Essex Packers Limited

Statements of Retained Earnings and Contributed Surplus

for the year ended April 3, 1971

	1971 \$	1970 \$
Retained Earnings		
APPROPRIATED AS A RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES (Note 3)		
Balance — beginning of year	24,129	25
Add: Transfer from retained earnings corresponding to amount to be deposited in sinking fund bank	9,977	24,104
Interest earned on sinking fund bank deposits	<u>1</u>	<u>—</u>
Balance — end of year	<u>34,107</u>	<u>24,129</u>
UNAPPROPRIATED		
Balance — beginning of year	492,812	375,685
Add: Net earnings for the year	<u>118,558</u>	<u>141,231</u>
	<u>611,370</u>	<u>516,916</u>
Less: Dividends on first preference shares	18,783	—
Transfer to the reserve for redemption of first preference shares	<u>9,977</u>	<u>24,104</u>
	<u>28,760</u>	<u>24,104</u>
Balance — end of year	<u>582,610</u>	<u>492,812</u>
TOTAL BALANCE — End of Year	<u>616,717</u>	<u>516,941</u>
Contributed Surplus		
BALANCE — Beginning and End of Year	<u>36,119</u>	<u>36,119</u>

Essex Packers Limited

Statement of Earnings

for the year ended April 3, 1971

	1971	1970
	\$	\$
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING - . .		
Provision for depreciation	<u>466,422</u>	<u>497,210</u>
Remuneration of directors and senior officers as defined by the Business Corporations Act (Ontario)	<u>103,193</u>	<u>116,049</u>
EARNINGS BEFORE INCOME TAXES		
PROVISION FOR INCOME TAXES	<u>148,368</u>	<u>140,126</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	<u>251,561</u>	<u>256,175</u>
EXTRAORDINARY ITEMS		
Loss on disposal of Windsor plant	<u>214,861</u>	<u>241,035</u>
Reduction in provision for loss on investment in subsidiaries	<u>104,303</u>	<u>118,000</u>
Reduction in income taxes upon application of losses of prior years	<u>110,558</u> ✓	<u>123,035</u> ✓
NET EARNINGS FOR THE YEAR	<u>118,558</u>	<u>141,231</u>
EARNINGS PER SHARE		
Earnings before extraordinary items	0.66 ✓	0.74 ✓
Net earnings for the year	0.71	0.87

Notes to Financial Statements

for the year ended April 3, 1971

1. SECURITY FOR BANK LOANS:

Book debts and inventories have been specifically pledged as security for bank loans; as additional collateral security, the company granted to the bank by a debenture, under a pledge agreement, a first fixed and specific charge on all the company's real property and a floating charge on all of its assets; the debenture being limited in its aggregate principal amount to \$1,700,000.

2. INVENTORIES ARE CLASSIFIED AS FOLLOWS:

	1971	1970
	\$	\$
Product	<u>1,070,270</u>	<u>942,112</u>
Supplies	<u>257,938</u>	<u>274,933</u>
	<u>1,328,208</u>	<u>1,217,045</u>

3. RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES:

In accordance with the conditions attaching to the first preference shares as set forth in the Letters Patent of the company, and pursuant to the opinion of the company's solicitor, this amount has been set aside as a reserve with a related sinking fund to be maintained for the redemption or purchase of said preference shares pursuant to said conditions.

4. INVESTMENT IN SUBSIDIARY COMPANIES:

Application has been made to the appropriate authorities to wind up all subsidiaries, and accordingly, consolidated financial statements have not been prepared.

No dividends or other income were received by the company from its subsidiaries and all losses anticipated by the subsidiaries up to the date of their dissolution have been recognized in the accounts of the company.

5. DEPRECIATION EXPENSE:

A portion of the company's investment in fixed assets (approximately \$174,000) is not eligible for tax deductible depreciation. Since the company records this expense in its accounts on the same basis and in same amounts as it claims for tax purposes, no charge has been made against the company's income of the current or preceding fiscal years respecting the depreciation applicable to the above-mentioned portion of its fixed assets.

Depreciation expense charged was \$103,193 for the year ended April 3, 1971 and \$116,049 for the year ended March 28, 1970.

6. DIVIDEND ARREARS:

First preference share cumulative dividend arrears amounted to \$23,500 as at April 3, 1971.

7. GROSS REVENUE:

The gross revenue of the company was \$33,619,730 for the year ended April 3, 1971 and \$31,529,891 for the year ended March 28, 1970.

Essex Packers Limited

Statement of Source and use of Working Capital

for the year ended April 3, 1971

Source of Working Capital

From operations

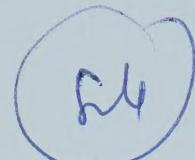
	1971	1970
	\$	\$
Net earnings for the year	118,558	141,231
Items not affecting working capital		
Depreciation	103,193	116,049
Loss on disposal of Windsor plant	—	101,057
	221,751	358,337
Proceeds from disposal of fixed assets	4,000	149,075
Recovery of investment in subsidiary companies	—	14,948
Payments on mortgage receivable	5,128	—
	230,879	522,360

Use of Working Capital

Additions to fixed assets	63,413	22,105
Transfer of cash to sinking fund account — net	24,104	—
Dividends	18,783	—
Assume mortgage receivable	—	17,203
	106,300	39,308
INCREASE IN WORKING CAPITAL	124,579	483,052
WORKING CAPITAL — BEGINNING OF YEAR	734,247	251,195
WORKING CAPITAL — END OF YEAR	858,826	734,247

This is how each
\$100.00 of sales
was distributed.



INTERIM REPORT
TO SHAREHOLDERS

for the 24 weeks ended September 18, 1971

To the Shareholders:

During the 24 weeks ended September 18, 1971, your company's operations reflected Net Earnings After Tax of \$50,403 compared with \$100,169 for the same period of the preceding year; and constitute a profit of 29¢ versus 65¢ per share in 1970.

Fiscal 1971 to this point, has featured three major factors which have had an adverse effect on our earning performance. Perhaps the most significant of these was an upward wage adjustment, only half of which has been recovered through the medium of improved productivity and better trading margins. The surplus pork situation and unfavourable beef markets have also contributed their share to the lower profit picture. Despite these difficulties, your directors are confident that the long-term growth of the company is contingent upon quality and service, and for this reason, management is directing its attention to the maintenance of the Company's excellent product reputation, coupled with those aggressive sales policies and cost controls necessary to maximize the return on sales.

Consistent with more rigid government inspection standards, several projects have been undertaken to ensure compliance with high-qualification requirements. Implementation of these programmes involves continuing expenditure of liquid resources.

In concert with continued budgetary restraints in all departments, and with operating gains of the past year, working capital has risen to a record high of \$954,563, thus exceeding by \$128,000 the plateau reached at the same point in the preceding fiscal year. This level of liquidity accommodates satisfactorily our large volume necessities and contributes to financial economies generally.

Your directors are of the opinion that the plans and projections for the remaining 28 weeks of this fiscal year will extend the continuing profit trend experienced to date.

November 1, 1971

President

ESSEX PACKERS LIMITED

INTERIM REPORT TO SHAREHOLDERS (Unaudited)

Financial Summary for the 24 weeks ended September 18, 1971

STATEMENT OF EARNINGS

Sales

Cost of raw materials

Operating, selling and distribution expense
Depreciation expense

Earnings before income taxes

Provision for income taxes

Earnings before extraordinary item

Extraordinary item

Reduction in income taxes upon application of
losses of prior years

Net earnings for the period

Earnings per share

Earnings before extraordinary item

Net earnings for the year

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

Source of working capital

Net earnings for the period

Add: Charge not requiring cash outlay-depreciation

Reduction in mortgage receivable

Equipment disposals

Use of working capital

Purchase of fixed assets

Payment of dividends

Increase in working capital

Working capital – Beginning of period

End of period

	1971	1970
	\$	\$
Sales	15,366,156	15,653,882
Cost of raw materials	11,509,994	12,143,664
Operating, selling and distribution expense	3,713,599	3,284,429
Depreciation expense	47,160	49,620
	<hr/>	<hr/>
Earnings before income taxes	15,270,753	15,477,713
Provision for income taxes	95,403	176,169
	45,000	84,000
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Earnings before extraordinary item	50,403	92,169
Extraordinary item	8,000	8,000
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Reduction in income taxes upon application of losses of prior years	50,403	100,169
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Net earnings for the period	0.29	0.59
	0.29	0.65
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Earnings per share		
Earnings before extraordinary item		
Net earnings for the year		